Message Text

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EXDIS, TOSEC 490

E.O. 11652: GDS--DECLAS. DEC. 31, 1979
TAGS: ENRG
SUBJECT: ARAB BOYCOTT AND OIL SHARING

FOR THE SECRETARY FROM UNDER SECRETARY CASEY

1. THE 25 PERCENT ARAB OIL CUTBACK HAS ALREADY REDUCED WORLD OIL AVAILABILITY BY OVER 5 MILLION B/D, AND IF ANOTHER 5 PERCENT REDUCTION COMES INTO EFFECT IN DECEMBER, THE DECREASE WILL EXCEED 6 MILLION B/D. THE UNITED STATES ALONG WITH THE NETHERLANDS AND PERHAPS PORTUGAL ARE TOTALLY EMBARGOED.

2. WESTERN EUROPE IS DIVIDED BY MANY ARAB PRODUCERS INTO THE "PREFERRED" COUNTRIES (UK, FRANCE, SPAIN), WHO WILL BE PERMITTED TO RECEIVE ARAB OIL AT LEVELS EQUAL TO THEIR ARAB OIL PURCHASES DURING THE FIRST NINE MONTHS OF 1973, THE TOTALLY BOYCOTTED (THE NETHERLANDS AND REPORTEDLY PORTUGAL) AND THE "NON-PREFERRED" NATIONS (ALL THE REST). THE LATTER CATEGORY WILL HAVE TO SHARE
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PRO RATA ANY OIL REMAINING FROM REDUCED ARAB PRODUCTION AFTER THE PREFERRED CUSTOMERS HAVE BEEN SATISFIED. WE ESTIMATE THAT THE OVERALL WEST EUROPEAN OIL DEFICIT WILL EQUAL ABOUT 3 MILLION B/D OR 15 PERCENT OF CONSUMPTION

BY MID-WINTER. THE NETHERLANDS, AS A TOTALLY BOYCOTTED COUNTRY AND WEST GERMANY, WHICH RECEIVES A SUBSTANTIAL PORTION OF ITS OIL THROUGH ROTTERDAM, WILL BE MOST

SERIOUSLY AFFECTED. WE UNDERSTAND THAT BOYCOTT WILL MEAN THAT DUTCH DOMESTIC CONSUMPTION AND OIL REEXPORTS WILL BOTH BE CUT BACK PRO RATA. HOWEVER A FAVORABLE STOCK POSITION WILL PERMIT DOMESTIC CONSUMPTION TO BE MAINTAINED AT '72 LEVELS UNTIL MARCH '74.

3. JAPAN, AS A "NON-PREFERRED" NATION WILL LOSE ABOUT 500,000 B/D OR 9 PERCENT OF CONSUMPTION AT FIRST; HOWEVER BY MID-WINTER THIS FIGURE IS LIKELY TO APPROACH 15 PERCENT. JAPAN'S POSITION IS AMELIORATED TO SOME EXTENT BY A FAVORABLE (50 DAY) STOCK SITUATION. THIS HOWEVER MAY NOT PREVENT REGIONAL AND SECTORAL SHORT-FALLS AND DISLOCATIONS. FYI: JAPANESE ESTIMATES OF LOSS IN OIL ARE HIGHER THAN OURS. END FYI. JAPANESE ARE KNOWN TO BE CONCERNED THAT MAJOR U.S. OIL COMPANIES, WHO SUPPLY MOST OF JAPAN'S OIL, HAVE CARRIED OUT OR ARE CONTEMPLATING LARGE CUTS TO JAPAN IN ORDER TO BOOST SUPPLY TO OTHER MARKETS SUCH AS U.S. DEPARTMENT SURVEY OF MAJORS ACTIVE IN JAPAN DOES NOT HOWEVER BEAR OUT THESE FEARS. (SEPTEL)

4. THE EFFECT OF CUTBACKS ON THE LDCS AS A WHOLE IS DIFFICULT TO ESTIMATE BECAUSE THEY ARE DIVIDED BETWEEN PREFERRED AND NON-PREFERRED. WE KNOW HOWEVER THAT SOME, INCLUDING THE PHILIPPINES, ARE BEGINNING TO EXPERIENCE SUPPLY DIFFICULTIES; IN THE LONGER RUN HOWEVER IT WILL PROBABLY BE PRICE RATHER THAN SUPPLY CONSTRAINTS THAT WILL PROVE MOST HARMFUL TO THE LDC ENERGY IMPORT AND USE SITUATION.

5. THE UNITED STATES IS UNDER TOTAL ARAB EMBARGO, AND THE RESULTING OIL IMPORT DEFICIT IS EXPECTED TO BE IN THE 2-3 MILLION B/D RANGE, OR 11-17 PERCENT OF CON-
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SUMPTION. THIS SHORTFALL FIGURE INCLUDES THE DENIAL OF ALL "NORMAL" ARAB OIL IMPORTS, AND LOSS OF SUBSTANTIAL QUANTITIES OF HEATING OIL WHICH WE HAD EXPECTED TO BE ABLE TO IMPORT FROM EUROPEAN REFINERIES OVER THE WINTER; IT HOWEVER EXCLUDES ADDITIONAL LOSSES OF ARAB OIL TO DOD OFFSHORE INSTALLATIONS (ESTIMATED AT 200-250,000 B/D). THERE IS ALSO A STRONG POSSIBILITY THAT OUR IMPORTERS WILL BE OUTBID FOR SOME QUANTITIES OF NON-ARAB OIL WHICH UNDER NORMAL CIRCUMSTANCES WOULD HAVE REACHED THE UNITED STATES SPOT OIL MARKET.

6. WE DO NOT THINK THIS IS THE TIME TO COMMIT OURSELVES IRREVOCABLY TO OIL SHARING WITH JAPAN, THE NETHERLANDS

AND/OR OTHER CONSUMERS. (DEVELOPMENTS DURING THE NEXT MONTHS MAY ALTER THIS JUDGMENT.) OUR REASONS ARE AS FOLLOWS:

A. WE ARE ALREADY IN EFFECT SHARING OUR OIL IMPORTS WITH WESTERN EUROPEAN COUNTRIES IN THAT THEY ARE NO LONGER SHIPPING TO US 260,000 B/D OF PRODUCTS WE WOULD NORMALLY RECEIVE. THIS HAS SIGNIFICANTLY WORSENED OUR OWN SUPPLY SHORTFALL.

B. UNITED STATES IS AS MUCH AND PROBABLY MORE DISADVANTAGED BY ARAB OIL BOYCOTT THAN ARE WEST EUROPEANS OR JAPANESE. OUR ESTIMATED MID-WINTER SHORTFALL WHICH LIKELY TO BE 17 PERCENT OR MORE OF CON- SUMPTION COMPARES WITH THAT FORESEEN FOR WESTERN EUROPE AND JAPAN (BOTH ABOUT 15 PERCENT) EVEN EXCLUDING NEGATIVE EFFECT OF DOD AND SPOT MARKET LOSSES.

C. OF WEST EUROPEANS, THE DUTCH, WHO ARE UNDER TOTAL EMBARGO, AND THE WEST GERMANS ARE PROBABLY MOST SERIOUSLY HARMED. HOWEVER TALKS I HAD LAST WEEK INDICATE THAT EUROPEANS ARE TAKING CARE OF THESE SHORTAGES THROUGH "QUIET" DIVERSIONS AND THAT THEY PREFER IT THIS WAY FOR TIME BEING. (OECD 28914). SIMILARLY, PORTUGAL, WHICH IS REPORTEDLY ALSO UNDER EMBARGO, ALSO APPEARS TO BE ABLE TO MEET ANY DEFICIT BY EXERCISING ITS RIGHT TO CALL UPON GULF OIL CORPORATION'S PRODUCTION IN ITS AFRICAN COLONY CABINDA NEAR ANGOLA.
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WE HAVE NO REQUESTS FROM ANY GOVERNMENTS FOR SHARING OF OUR REDUCED SUPPLIES. (WE ARE OF COURSE MINDFUL SEPARATE UNDERTAKING IN THIS CONNECTION.)

D. FINALLY WE ARE IN DECISIVE STAGES OF PUSHING THROUGH EMERGENCY OIL SUPPLY LEGISLATION AND PROGRAM. ALREADY WE FACING CONGRESSIONAL AND PUBLIC CRITICISM FOR EVEN SMALL AMOUNTS OIL EXPORTS AND POSSIBLE OTHER DIVERSIONS OF PETROLEUM. IT WOULD BE BEST NOT TO REDUCE OUR SUPPLIES FURTHER AT THIS TIME, ESPECIALLY WHEN THE NEEDS OF NETHERLANDS, JAPAN, ETC. LESS CRITICAL THAN OURS.

7. NONETHELESS, GIVEN COMBINATION OF ARAB AND DOMESTIC POLITICAL PRESSURES, GOJ LIKELY CAVE UNLESS WE SHOW SOME SENSITIVITY AND RESPONSIVENESS TO THEIR CONCERNS ABOUT OIL SUPPLIES. WE SPECIFICALLY RECOMMEND FOLLOWING LINES BE TAKEN WITH GOJ:

A. NOTWITHSTANDING OUR EXPECTATIONS OF GREATER IMPACT ON U.S. THAN ON JAPAN, USG DOES NOT FAVOR AND HAS NOT SOUGHT DIVERSION TO U.S. OF OIL SUPPLIES BY INDUSTRY FROM NON-ARAB COUNTRIES OR DIVERSIONS FROM

ARAB COUNTRIES BEYOND PRO-RATA CUTS LEVIED BY ARAB STATES.

B. USG WILL KEEP UNDER CONSTANT EXAMINATION IMPACT OF OIL CUTS ON CONSUMING COUNTRIES AND WILL BE GLAD TO MEET FREQUENTLY WITH GOJ OFFICIALS TO REVIEW SITUATION.

C. USG AGREES TO CONSIDER POSSIBILITY OF SOME SHARING IF REVIEW DEMONSTRATES IMPACT DISPROPORTIONATE. CASEY

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